India's Rural Employment Programme is Dying a Death of Funding Cuts*

Jayati Ghosh

Ten years ago this week, the Indian parliament unanimously passed the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). It was a historic legislation based on two interlinked goals: ensuring livelihood security to rural residents by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work; and using the programme to mobilise existing surplus labour in the countryside, to unleash productive forces and generate more economic growth in rural areas.

The treatment of employment as a right of citizens that must be delivered by the state involved a crucial reversal of the underlying basis of public delivery in India, which has mostly been driven by a paternalistic view of the state as delivering "gifts" to the people.

Obviously, such a major transformation was never going to be easy, and there have been concerns about corruption and unevenness in implementation across states. Even so, the programme has had several tangible positive effects: increasing rural wages and reducing gender wage gaps; smoothing and stabilising consumption by poor people; enabling better access to nutrition, health and education; increasing financial inclusion because of payments through bank accounts; and reducing distress migration. In some places it has helped to improve rural connectivity and agricultural productivity by creating more sustainable forms of irrigation and production. It has also served as a built-in stabiliser of the economy during downturns.

Marking a decade of such an effective law would normally be cause for celebration. Unfortunately, not. This is now a programme that could be dying.

The peak period for the programme was the fiscal year 2009-10, when more than 2.8bn days of employment were provided to members of 54m rural households. Even at its peak, total spending on the programme amounted to only 0.8% of GDP, making it probably the most efficient employment programme ever.

But since 2010, the programme has declined in terms of financial outlay and employment generated. Some states (such as Tripura) have continued to show improvement, but this has been against the odds, and possibly only because of a determined state government.

Essentially, central government has been slowly trying to kill this programme by starving it of essential funds. The cynical process was started by the very Congress-led government that put the law into force, but it has intensified under the government of Narendra Modi.

This has been done by putting an effective cap on the amount of money central government provides to state governments for running the programme. Since the rural employment guarantee is meant to be demand-driven, with jobs being offered to all rural households who ask for it, the idea of a cap is in principle absurd – and in any case it is prohibited in the act itself. Even more absurdly, central government's budgetary allocation is only about half of the Ministry of Rural Development's own estimates of the "approved person days as per the labour budget". This means that funds released to states have been rationed to the point that state governments have been unable to pay wages and have large and growing arrears.

A further sleight of hand by the central government is simply to push the excess of actual spending over outlay into the next year's spending, thereby reducing the next year's outlay even more. In the current year, the budgetary outlay amounts to only 0.25% of GDP after taking into account the arrears from the previous year.

As a result, payments to workers have been delayed – the current official estimate is that nearly three-quarters of wage payments are held up, sometimes by as much as a year or more.

Obviously, workers get disheartened and reduce their demand for work even when they need it; in other cases, the state and local authorities try to dissuade them or do not register their demand because they do not have the funds to provide the required work.

State governments that do try to meet their obligations have been forced to do so by using other funds; at least five states have written increasingly desperate letters to central government demanding the release of funds, and three state assemblies have passed resolutions opposing dilution of the act and demanding an increase in funding.

All this, so far, has been to no avail. Instead, central government seems happy to have reined in this expenditure and thereby reduced rural workers' bargaining power and standards of living.

The government's mid-year review of the economy in December states gleefully that "a dramatic change seems to have happened to rural labour markets since 2012 because wage growth has plunged. A combination of softness in the economy and reductions in MGNREGA expenditures (declines of 3 and 36% in the last two years) have played a key role. If these trends continue, rural wage growth can continue to decelerate, further moderating inflationary pressures."

The MGNREGA came into being not because of a benevolent government, but because of pressure from social movements and rural workers. Much more pressure will be needed now to save it.

* This article was originally published in The Guardian http://www.theguardian.com/global-development/2015/feb/05/india-rural-employment-funding-cuts-mgnrega